

EMNAMBITHI/LADYSMITH MUNICIPALITY



2013/2014 Adjustments Budget

ANNEXURE A

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MAYORAL REPORT

It is an honour to stand before you today to present the 2013 / 2014 mid-year adjustments budget.

As part of the financial oversight process, it is imperative that the municipality re-assess its financial state of affairs and operational needs during the mid-year and revise budgeted estimates and projections where necessary. Keeping the needs of the community in mind, the municipality's strategy for the rest of the financial year will be a capital-intensive approach towards service delivery.

In terms of section 28 (1) of the Municipal Finance Management Act, "A municipality may revise an approved annual budget through an Adjustments Budget."

This adjustments budget document is very comprehensive and provides details of the municipality's entire plan for the balance of the financial year.

The 2013/2014 adjustments budget was compared to the actual amounts as at 31 December 2013. The mid-year financial statements and feedback from Provincial Treasury on the mid-year budget assessment was also taken into account when compiling the adjustments budget.

All Heads of Departments were consulted in terms of the budget. All requests from Heads of Departments were captured in terms of overspent line items and transfer of funds between line items. Taking the above-mentioned factors into consideration, the budget is balanced.

The following new and revised allocations were gazetted:

Small Town Rehabilitation Grant	R 4 000 000
Corridor Development Grant	R 5 200 000
Neighbourhood Development Programme Grant	R 10 906 000

All unforeseen and unavoidable expenditure to date has been regularised and included in the budget. Detailed explanations per item are attached in the executive summary of the adjustment budget. It is anticipated that the adjustments budget will enhance service delivery in the municipality.

EXECUTIVE SUMMARY

OPERATIONAL BUDGET – ANNEXURE A1

REVENUE

Rates Revenue

Rates income has been reduced by R5 804 459 due to the General Valuation and Supplementary Valuations including provision made for an estimated reduction of approximately R3 million should objections be successful.

Refuse

Based on the actual amount billed for the period July 2013 to December 2013, a projection of the income reflected that we under-budgeted the refuse income. There is an increase of R 1 288 329.

Traffic and Licensing

A minimal projected increase of R 220 000 has been budgeted for on the registration and renewals income line item based on income billed up to December 2013.

Electricity Income

Electricity income remains as was originally budgeted. This is due to the uncertainty of usage estimation relating to the move from conventional to prepaid meters.

Electricity Availability Charges

This income has been reduced by R486 960 due to the third supplementary valuation roll.

Grants income

The following grants are included in the Adjustments Budget:

Municipal Systems Improvement Grant	R 890 000
Provincialisation of Libraries	R 3 192 000
Financial Management Grant	R 1 550 000
Expanded Public Works Programme	R 2 729 000
Recapitalisation of Libraries	R 259 000
Museum Subsidy	R 284 000
Accreditation of Municipal Co-ops	R 673 000

There has been an increase in the operational grants of R 814 000 comprising the Museum Subsidy and Accreditation of Municipal Co-ops.

Other income

The increase of R 16 095 204 comprises a fair value adjustment of R10 759 965 which is based on the average fair value adjustments to investment properties for the past 3 financial years. This fair value gain is a non-cash item. The remaining increase of R5 335 239 is due to the increase in the generation of income from the

minor tariffs e.g. rates penalties, hall hire, sundries, fire brigade services, photocopies, burial fees etc.

Interest Income

The minimal increase of R45 000 is based on interest raised to date under the electricity vote.

Sundries

There is an increase of R 384 840. This is mainly due to the increase in bid documents sold as well as the increase in the fee for bid documents.

Credit Control Income

The decrease of R 7 512 223 is based on the credit control income billed up to December 2013, as well as considering the actual trend for the past two financial years.

Land Sales

This is the estimated amount of funds that is to be generated from the sale of vacant land in all areas within the municipal area that is owned by the municipality. An increase of R1 500 000 has been adjusted for taking into account sales up to December 2013.

Capital Grants

The amount of R58 068 000 comprises the following:

MIG	R 36 025 000
NDPG	R 12 843 000
Small Town Rehabilitation Grant	R 4 000 000
Corridor Development Grant	R 5 200 000

EXPENDITURE

Salaries

All employees that were paid in December 2013 have been accounted for in the amount of R 136 831 033. Job creation has been increased by R 10 000 000 and this increase has been catered for based on savings identified on the original salary budget for permanent staff. This increase will cater for the security job creation employees which were previously budgeted for as permanent employees, as well as other posts.

As at the end of December 2013, R 16,3 million was spent on job creation and projections indicate that an estimated R 32,6 million will be spent on job creation should this not be reduced.

An additional R555 000 has been budgeted for under "Councillor Allowances Other" based on SALGA Circular 4 of 2014 – Determination of Upper limits of salaries, allowances and benefits of Councillors for the 2013/14 financial year.

The labour charge-out has decreased by R 5 774 398 based on charge-outs up to December 2013.

Salaries remained at 32% of the total budgeted expenditure.

General Expenses

Free Basic Electricity

This amount has been decreased by R 957 370 based on prior year audited Annual Financial Statements and is utilised to fund indigent consumers who receive the 50kWh free electricity.

Free Basic Refuse

This amount has been increased by R 5 200 000 and is utilised to fund indigent consumers who receive the refuse removal service for free.

Rates Indigency

This amount has been increased by R 3 467 167 due to the under-provision in the original budget. The increase is based on prior year audited Annual Financial Statements.

Bulk Purchase – Electricity

The purchase of electricity has been decreased by R 3 000 000 based on purchases up to December 2013, and trends in usage for the rest of the financial year, noting there is an element of uncertainty with regard to the impact of the conversion of conventional meters to prepaid meters.

LUMS

There is a decrease of R200 000 based on expenditure trend for this financial year.

Municipal Property Rates Act

There is a decrease of R 1 150 000 based on spending up to December 2013.

Emergency Relief

There has been an increase of R 800 000 to this line item due to the increase of storms in the last few months in the municipal area.

Electrical Refurbishment

This has been decreased by R 5 991 925 due to virements to other line items and based on expenditure levels up to December 2013. These funds are used for the maintenance of the electrical systems and is a NERSA requirement.

Youth Development

This is a Mayoral project and is a programme on Youth awareness. There has been no adjustment to original budgeted expenditure.

Staff Training

There is a decrease of R 130 605. These funds are used by employees to attend training workshops as well as to enrol at tertiary institutions to further their education.

Postage Services

This amount includes the bulk postage of municipal accounts, as well as the individual postage costs incurred by the departments. There is a decrease of R 75 324.

Pauper Burials

There is a decrease in this allocation of R 41 865. The funds are used for the burial of people who are not in a position to afford having a funeral.

Audit Fees

There has been no adjustment to the original budget.

Legal Expenses

There is an increase of R 519 600 against this allocation. The funds are used by the legal section in the implementation of the legal process for the collection of arrear debt. The increase is to make provision for any legal costs relating to the Itramas lawsuit.

SAMRAS Update

There is an increase of R 1 810 000. These funds are used by the Finance Department for the implementation of GRAP 17 and the increase relates to the implementation of the asset module into SAMRAS.

Ward Committees

There is no adjustment to this allocation.

Free Basic Alternate Energy

There is a decrease of R 300 000. The funds are used by the Public Participation unit for the procurement of gel, gel stoves and oil lamps for the community who have no access to electricity.

SARS Skills Development Levy

There is an increase of R 328 336 based on actual expenditure up to December 2013. This is an amount that is paid to SARS for the development of skills. These funds can be claimed from the SETA when the municipality incurs training costs.

Transport

There is an increase of R 1 524 328. This increase is due to under budgeting of costs incurred to run the vehicles in the departments.

Conference and Delegations

There is an increase of R 70 510. These funds are used by the municipality for the attendance of conferences, workshops and seminars. The accommodation and travelling costs are paid from these funds.

Telephone and Fax

There is an increase of R 1 073 490 based on actual expenditure incurred. The Telkom and cellular phone accounts are paid from these funds.

Electricity

There is an increase of R 458 721 based on average actual expenditure. These funds are used for the payment of the municipality's electricity accounts.

Disconnections and Reconnections

This amount has been decreased by R 2 785 478 based on actual expenditure incurred.

Siyazenzela Project

This amount has been increased by R 900 000. The increase is due to a stipend being paid out as opposed to food parcels. There is also an increase in hours worked.

Insurance

This amount has not changed.

Zibambele EPWP Pilot Project

This amount has been decreased by R 1 056 600. The expenditure relating to this line item is accounted for on the EPWP line item for which a total budget of R2 729 000 was made available.

Printing and Stationery

This amount has not been adjusted.

Sports and Recreation

There has been no adjustment to this amount.

Events

There is an increase of R 3 135 000. This increase includes R2 million for the Mandela Programme and R 855 000 for Nyusi Festival.

Self-Insurance Fund

There is no change to the allocation. These funds are used for the payment of repairs to municipal assets. The purpose of the fund is to reduce the insurance premium that is paid by the municipality.

WCA

There has been an increase of R500 000 for Workmen's Compensation and this is based on prior year actual expenditure.

Grant Expenditure

The following grants are included in the Adjustments Budget:

Municipal Systems Improvement Grant	R 890 000
Provincialisation of Libraries	R 3 192 000
Financial Management Grant	R 1 550 000
Expanded Public Works Programme	R 2 729 000
Recapitalisation of Libraries	R 259 000
Museum Subsidy	R 284 000
Accreditation of Municipal Co-ops	R 673 000

There has been an increase in the operational grants of R 814 000 comprising the Museum Subsidy and Accreditation of Municipal Co-ops.

Development Plans

This amount has decreased by R 20 000.

Water

This amount has decreased by R 1 116 699. These funds are used for the payment of the water bills to UThukela District Municipality. The water deliveries increase this cost. It must be noted that the invoices received from the District are highly erratic, and although average actual expenditure has been used to project the increase, expenditure is inconsistent from month-to-month.

Streetlights

This amount has increased by R 692 925. These funds are used for the payment of the electricity accounts for streetlights in the municipal area.

Security Services

There is a decrease of R 6 275 618. This is due to the in-house security services being provided and security is now paid from the job creation vote.

Protective Clothing

There is a decrease of R 50 356. This allocation is used in the purchases of protective clothing for the job creation staff, as well as for permanent staff.

Capital ex Revenue

There is an increase of R 95 020. These funds are used for the purchase of capital items e.g. furniture and small plant that is not included in the capital budget.

Consultants

There is an increase of R 3 000 000 for consultant fees relating to the Asset Management Module.

Other General Expenses

The decrease of R 1 343 591 is due to the overall decrease in line items. Included in this category of expenditure are the ad-hoc items e.g. Port and line costs, AIDS awareness programmes, material and sundries, etc.

Repairs and Maintenance

Software

This amount has increased by R 205 927. These funds are used for the payment of the licence fees for the Samras financial system, as well as the purchase of the operating systems e.g. The Windows programme for new computers.

Roads Tarred and Earth

This amount has decreased by R 8 063 865 due to funding that was used for payment of contractors and this has been transferred to the capital budget.

Storm water

This amount has decreased by R 4 690 693 due to funding that was used for the payment of contractors and this has been transferred to the capital budget.

Levelling of the Dump Site

This amount has decreased by R 53 000.

Surveillance Cameras

This amount has increased by R 143 000 based on actual average monthly rentals paid.

Electricity Mains

This amount has increased by R 500 810 to meet the operational requirements of the municipality.

Substation Equipment

This amount has decreased by R 134 832.

Street Lighting

This amount has increased by R500 000. Additional streetlights are required for new projects. Maintenance of streetlights is required because of ageing infrastructure.

Metering

This amount has increased by R 703 235. These funds are used for the purchase of new meters as well as the costing of the meter readers. The check readings and purchase of equipment for the installation of the meters are purchased from these funds.

House Service Overhead Mains

This amount has increased by R 496 820. These funds are used for the maintenance of lines to households.

Buildings

This amount has decreased by R 237 720. These funds are used for the maintenance of municipal buildings.

Hardware

This amount is unchanged. These funds are used for the maintenance of computer hardware.

Klipriver Maintenance

There is a decrease of R 100 000 to the allocation. These funds are used for the maintenance of the foliage along the river, as well as to dredge the riverbed.

Low Water Crossings

There is a decrease of R50 000 on this allocation.

Other Repairs and Maintenance

The increase of R 917 447 is due to an overall increase in the other line items.

Capital Charges

Depreciation

In terms of Generally Recognised Accounting Practice, the full depreciation requirement for all the municipality's assets must be provided for in the operational budget. Should the municipality fund the total depreciation amount of R 68 426 366, tariffs will be very high and unaffordable to the consumers. National Treasury recognises this in MFMA Circular 42 – funding a municipal budget. A phased increase or re-alignment in tariffs may need to be considered to compensate the deficit to a surplus by a progressive move through gradual tariff increases or the re-alignment of municipal revenue.

The community needs to make a sufficient contribution towards the economic benefit that is generated from the assets over the medium term budget period.

Currently, the municipality has opted to fund R 20 509 292 of the total depreciation expense.

Impairment of Assets

This was not budgeted for previously and relates to asset impairment in terms of GRAP 17. The budgeted figure of R 3 742 315 is based on the average impairment for the past 3 financial years.

Loan Repayments

The municipality currently has one loan to service for the Tsakane Substations.

Contributions

Pensioners Medical Aid

This amount has been increased by R 2 220 050 based on prior year actual audited Annual Financial Statements.

Leave Reserve

The provision has been increased by R1 500 000 based on prior year actual audited Annual Financial Statements.

Rates Rebates

This amount has decreased by R 6 719 202. These funds are used to fund the rebates that are granted to consumers for paying their rates upfront for the whole financial year. The decrease is based on prior year audited figures.

Non- Payment

There is an increase of R 1 813 880 based on prior year audited figures.

Long-service Awards

Provision has now been made for payment of long-service awards, which was previously not budgeted for. The amount budgeted for is R 2 250 000 based on prior year audited figures.

CAPITAL BUDGET

The capital budget (shown as Annexure A2) has increased by R 44 787 967.

The revenue funded projects have increased by R 24 681 967. This includes funding of capital projects from the operational budget to the value of R13 036 482, over-expenditure on capital projects or expenditure on capital items not budgeted for to the value of R1 223 485 and additional funds of R19 722 000 requested on capital projects. Furthermore, original council funding has been reduced by R 9 300 000.

The following is a summary of capital projects funded from the operational budget:

TABLE A: CAPITAL PROJECTS FUNDED FROM OPERATIONAL BUDGET:

PROJECT	BUDGET TRANSFERRED FROM OPERATIONAL	SPENDING AS AT 4 FEB 2014
Watersmeet Mini Community Facility	R 200 000	R 111 933
Surfacing Roads and Stormwater - Ward 4	R 5 500 000	R 4 803 997
Watersmeet Hall	R 183 377	R 116 950
Emcitsheni Hall	R 326 800	R 315 435
Lister Clarence Building	R 1 213 350	R 1 206 168
MV Backbone to Ntokozweni	R 2 231 925	R 1 104 876
Link Road Acaciavale to Ezakheni	R 2 881 030	R 2 799 462
Emergency Testing Centre	R 500 000	R 488 243
TOTAL	R 13 036 482	R 10 947 064

Total budget unspent on the above is **R 2 089 418**.

Over-expenditure on capital projects or expenditure on capital items not budgeted for are as follows as at 4 February 2014:

TABLE B: OVER-EXPENDITURE ON CAPITAL PROJECTS/CAPITAL NOT BUDGETED FOR:

Project	R
Street Lights – Watersmeet	354 000
Street Lights – Mthandi	287 000
Community Hall Ezakheni Ward 3	476 000
Colenso Offices	78 931
Streetlighting Storm Damage	27 554
TOTAL	R 1 223 485

As shown in tables A and B above, total expenditure of R12 170 549 (R 10 947 064 + R 1 223 485) has already been incurred of the additional council funding as at 4 February 2014.

Additional Capital funds to the value of R 19 722 000 to be made available are as follows:

TABLE C: ADDITIONAL COUNCIL CAPITAL FUNDING REQUIRED:

PROJECT	AMOUNT
Surfacing Roads & Stormwater - Ward 4	R 5 000 000
Ezakheni Emergency Centre	R 500 000
Parks Steadville/E Section	R 450 000
11kv Circuit Breakers (Jantha S/H)	R 700 000
Airport Lighting	R 400 000
Link Road from Accaciavale to Ezakheni	R 1 000 000
Lister Clarence Building	R 2 800 000
Streetlights – Watersmeet	R 178 000
Streetlights – Mthandi	R 274 000
Telephone system – Lister Clarence	R 300 000
Colenso Electricity Strengthening	R 5 400 000
Streetlights Mcitsheni & Zwelisha & Roosboom	R 1 300 000
Community Hall Area J	R 820 000
MV Backbone to Ntokozweni	R 600 000
TOTAL	R 19 722 000

Council Funding on Projects originally budgeted for have been reduced as follows:

TABLE D: REDUCTION OF ORIGINAL COUNCIL FUNDED PROJECTS

PROJECT	AMOUNT
2 x Robots	- R 800 000
Land Purchase Transnet	- R 1 000 000
Plant and Equipment	- R 7 500 000
TOTAL	- R 9 300 000

In total additional council funding of R 12 511 418 is projected to be drawn from cash funds, comprising of R 19 722 000 (as per table C above) and R 2 089 418 (budget unspent from operational budget – Table A above) less R 9 300 000 reduction of original council funding.

The total adjustment to council funded projects amounts to R 24 681 967 comprising:

Capital projects funded from operational budget (Table A)	R 13 036 482
Over-expenditure on capital projects/expenditure not budgeted for (Table B)	R 1 223 485
Additional Capital funds required (Table C)	R 19 722 000
Less reduction in original council funding (Table D)	<u>(R 9 300 000)</u>
Total per Adjustments Budget	<u>R 24 681 967</u>

The revenue funded assets are to be funded from the uncommitted funds from prior year's surpluses.

The grant funded projects have increased. This is due to the increased allocation under the:

Corridor Development grant	R 5 200 000
NDPG	R 10 906 000
Small Town Rehabilitation Grant	<u>R 4 000 000</u>
TOTAL	<u>R 20 106 000</u>

The total projects to be funded from grant funding is R 58 068 000.